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September 1, 2011

To: Honorable Peter Franchot  
Honorable Nancy K. Kopp  
Secretary T. Eloise Foster

From: David F. Roose  
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Subject: Fiscal Year 2011 Revenues

General fund revenues totaled \$13.537 billion in fiscal year 2011, \$314.2 million (2.4%) above the forecast. Revenues grew 7.5% (\$950.2 million), although after adjusting for the new distribution of \$377.0 million of highway user revenues to the general fund, baseline growth was a modest 4.5%. Almost all of the unanticipated revenues were from the individual income tax; altogether, the remaining \$6.894 billion of revenues were \$10.1 million over the forecast. That aggregation, however, masks the fact that the second- and third-largest sources of general fund revenue, the sales tax and corporate income tax, both missed the estimates, by \$52.2 million and \$40.0 million respectively. Ongoing revenues other than the individual income tax and highway user revenues grew at a lethargic 2.1% for the fiscal year.

Individual income tax revenues generated \$6.643 billion of general fund revenue, and finished the year \$304.1 million over the estimate; growth was 7.5%. The strong results are primarily a result of much stronger final payments and much lower refunds than had been expected—final payments were \$170.4 million over the forecast, while refunds were \$171.9 million under the forecast (in both cases, slightly over \$100 million in general fund revenue). It appears that throughout tax year 2010 taxpayers relied on safe harbor requirements related to tax year 2009 activity, the meeting of which allows them to avoid paying interest and penalty. As the economy emerged from the recession in 2010 and income accelerated, this resulted in the underpayment of 2010 liability during the tax year, which was then reconciled as returns were filed. Roughly two-thirds of the fiscal year 2011 unanticipated revenues relates to tax year 2010 activity—activity in the past.

The components of the income tax reflecting current activity also exceeded the forecast, though not by as significant a margin. Estimated income tax payments grew 7.3% to \$1.425 billion, \$110.2 million over the forecast (roughly \$66 million in general funds). This growth may reflect underlying activity, though it may also reflect the safe harbor requirements resetting to tax year 2010. Income tax withholding grew at 4.3%, somewhat below the long-term average but a rebound from the 0.5% decline in fiscal year 2009 and the 1.3% increase last year. Withholding was supported by growth in employment for the first time in three years; over the course of each of the prior two fiscal years, employment declined roughly 2.0%, while it performed more than two

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percentage points better in fiscal year 2011, growing at a weak 0.3%. Withholding finished the year \$30.7 million above the forecast (roughly \$20 million in general funds). Income tax from fiduciaries increased by more than 50%, partly a result of two years of double-digit stock market returns. At \$68.9 million, fiduciary payments finished \$24.6 million above the forecast (roughly \$16 million in general funds).

Corporate income tax revenues declined by more than 17% to \$571.3 million, finishing \$40.0 million below the forecast. The primary reason for the decline is that several truly extraordinary payments were received in fiscal year 2010. Excluding these payments, receipts would have increased marginally. Gross receipts declined 2.9% excluding the extraordinary payments; estimated payments, reflecting current activity, increased 3.6%, while final payments fell almost 15%. Final payments received in fiscal year 2011 may have been affected by net operating losses arising from the recession, when corporate profits suffered one of their longest and deepest declines.

General fund sales and use tax revenues grew 3.8% to \$3.656 billion but fell short of the estimate by \$52.2 million. Gross receipts increased 3.7% to \$3.898 billion, the first growth since fiscal year 2007 (after accounting for the 2008 rate increase). Revenues from consumers, about two-thirds of total sales tax collections, grew 4.5% but fell \$34.8 million under the estimate. Low consumer confidence, high gas prices, and continued declines in home values outweighed the expected impact of resumed growth in personal income and household wealth. Despite declining residential construction permit issuances and a depressed volume of home sales, construction related receipts grew 4.7%, the first year of baseline growth since fiscal year 2006, beating the forecast by \$10.9 million. Capital goods related receipts grew 0.9% for the year, far below an expected 7.1% increase, indicating low business confidence and reluctance to invest in equipment and expansion. These revenues were \$19.4 million under the forecast. Receipts from utility and transportation companies fell for the second straight year, down 0.9%, \$5.9 million below the full year estimate that had called for 0.7% growth.

General fund lottery receipts ended \$6.8 million over the estimate at \$499.4 million, a 1.7% increase over fiscal year 2010. Pick 4, the fourth largest game by sales volume, generated all of the revenue growth and then some, with revenues growing by \$12.8 million. Pick 4 sales increased only 3.2%, but revenues increased 13.9% due to the payout ratio making a sizeable turn towards the State's benefit, 50.6% this year versus 53.7% in fiscal year 2010. As the prize payout remained higher than statistically expected, Pick 4 fell \$6.5 million short of the forecast. Sales of Pick 3, the third-largest game, declined for the fourth year out of the last five. Sales fell 2.3% while revenues fell 3.2%, although revenues exceeded the forecast by \$2.3 million. Keno and Racetrax both exceeded estimates with Racetrax sales and revenue growth of 15.9% and 15.1% respectively, while Keno revenues decreased 0.9% on a 2.9% decline in sales. The multi-state lottery games (Mega Millions and Powerball), when taken as a group, also exceeded revenue expectations. Combined, the games realized sales growth of 3.4% and revenue growth of 3.5%. The largest game, instant tickets, experienced muted sales growth at 0.5%, while revenues fell \$1.8 million short of the estimate, down 2.6% on larger than expected payout rates.

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Business franchise taxes, composed of business filing fees and public service company franchise taxes, exceeded the estimate by \$7.3 million, ending the fiscal year up 3.8%. The franchise tax component led the way, growing 6.0% on a year-over-year basis while the estimate called for a marginal decline. Receipts from gas and electric utilities grew a strong 13.1% while the telecommunications segment continued a trend of decline, down 8.4%. Business filing fees, which are collected as business entities are registered with the State and had shown surprising growth throughout the recession, grew an anemic 0.3% compared to an estimate of 2.5%.

Inheritance and estate taxes, which given their nature are inherently volatile, grew 24.5% to \$216.0 million, \$21.3 million above the estimate. The estate tax component, roughly 75% of the total collections, grew 27.3%, while the estimate called for only 15.8% growth. The average payment for large estates remained relatively unchanged at \$1.9 million, but the number of such estates jumped 43% to 53 estates. Inheritance taxes realized their largest year-over-year gain on record up 17.4%, due in part, perhaps to the strong rebound in the stock markets in 2009 and 2010.

Tobacco tax revenues fell \$5.0 million short of the estimate, realizing year-over-year growth of 0.4% while the estimate called for 1.6% growth. Tobacco stamp sales, the bulk of the tobacco tax, were nearly flat, falling by only 39,000 stamps to 199.6 million. Revenues from other tobacco products grew 5.1% to \$12.4 million, just shy of the \$12.6 million estimate.

Aided by new revenue sources, miscellaneous general fund revenues grew 15.0% to \$386.2 million. The new federal subsidy for retiree drug plans exceeded its estimate by \$9.2 million at \$32.2 million. Additionally, the State Lottery Agency now records general fund revenue for license applications to the extent that they exceed the associated administrative costs, a total of \$1.9 million this year. Among existing miscellaneous revenue sources, unclaimed property (\$13.8 million), uninsured motorist penalty fees (\$4.0 million), and the State admissions and amusement tax (\$1.7 million) all exceeded the forecast. Among State agencies, the Department of Education (\$16.7 million), Office of the Attorney General (\$7.8 million), and the Department of Health and Mental Hygiene (\$6.2 million) all exceeded their estimates by substantial margins.

The Revenue Monitoring Committee will be analyzing the fiscal year 2011 results and the current economic outlook over the next several weeks in preparation for the revision of the revenue estimates later this month. In the meantime, if you have any questions, please do not hesitate to contact me.

**Actual and Estimated General Fund Revenue  
Fiscal Year 2011**

	Fiscal Year 2011				Fiscal Year 2010		
	Actual	Estimated <sup>1</sup>	Difference from Estimate		Actual	Growth FY 10 - FY 11	
			\$	%		\$	%
<b>INCOME TAXES</b>							
Individual	6,643,428,888	6,339,319,000	304,109,888	4.8%	6,178,242,639	465,186,249	7.5%
Corporations	571,301,425	611,310,000	(40,008,575)	-6.5%	689,310,989	(118,009,564)	-17.1%
<b>Total</b>	<b>7,214,730,313</b>	<b>6,950,629,000</b>	<b>264,101,313</b>	<b>3.8%</b>	<b>6,867,553,628</b>	<b>347,176,685</b>	<b>5.1%</b>
<b>SALES AND USE TAXES</b>	<b>3,656,043,473</b>	<b>3,708,261,000</b>	<b>(52,217,527)</b>	<b>-1.4%</b>	<b>3,522,773,696</b>	<b>133,269,777</b>	<b>3.8%</b>
<b>STATE LOTTERY RECEIPTS</b>	<b>499,393,851</b>	<b>492,550,000</b>	<b>6,843,851</b>	<b>1.4%</b>	<b>491,008,631</b>	<b>8,385,220</b>	<b>1.7%</b>
<b>OTHER REVENUES</b>							
Business Franchise Taxes	210,171,002	202,919,000	7,252,002	3.6%	202,451,759	7,719,244	3.8%
Tax on Insurance Companies	285,942,114	287,044,000	(1,101,886)	-0.4%	277,006,782	8,935,333	3.2%
Estate and Inheritance Taxes	216,044,159	194,709,000	21,335,159	11.0%	173,473,468	42,570,691	24.5%
Tobacco Tax	407,570,396	412,548,000	(4,977,604)	-1.2%	405,915,108	1,655,288	0.4%
Alcoholic Beverages Excises	30,434,733	30,504,000	(69,267)	-0.2%	29,873,865	560,868	1.9%
Motor Vehicle Fuel Tax	5,000,000	5,000,000	-	0.0%	8,385,845	(3,385,845)	-40.4%
Highway User Revenues	377,054,884	370,012,000	7,042,884	1.9%	N/A	377,054,884	N/A
District Courts	86,867,248	86,458,000	409,248	0.5%	87,331,485	(464,237)	-0.5%
Clerks of Court	29,263,499	31,227,000	(1,963,501)	-6.3%	35,483,707	(6,220,208)	-17.5%
Hospital Patient Recoveries	74,233,348	74,649,000	(415,652)	-0.6%	72,690,184	1,543,164	2.1%
Interest on Investments	58,380,514	54,000,000	4,380,514	8.1%	50,223,150	8,157,364	16.2%
Miscellaneous	386,234,327	318,981,636	67,252,691	21.1%	335,928,466	50,305,861	15.0%
<b>Total</b>	<b>2,167,196,225</b>	<b>2,068,051,636</b>	<b>99,144,589</b>	<b>4.8%</b>	<b>1,678,763,818</b>	<b>488,432,407</b>	<b>29.1%</b>
<b>TOTAL CURRENT REVENUES</b>	<b>13,537,363,863</b>	<b>13,219,491,636</b>	<b>317,872,227</b>	<b>2.4%</b>	<b>12,560,099,774</b>	<b>977,264,089</b>	<b>7.8%</b>
Extraordinary Revenues <sup>2</sup>		3,700,000	See Note 2		27,015,264	See Note 2	
<b>GRAND TOTAL</b>	<b>13,537,363,863</b>	<b>13,223,191,636</b>	<b>314,172,227</b>	<b>2.4%</b>	<b>12,587,115,038</b>	<b>950,248,826</b>	<b>7.5%</b>

<sup>1</sup> The fiscal year 2012 budget increased 2011 revenue estimates by \$60.5 million; the estimates for the individual income tax, sales and use tax, and miscellaneous revenues have been adjusted accordingly.

<sup>2</sup> The extraordinary revenues in 2010 and 2011 reflect the 2010 tax amnesty program. For administrative reasons, receipts from the tax amnesty in fiscal year 2011 cannot be detailed and are included in the revenue source to which they pertain.

There were additional budgeted transfers from other funds into the general fund totaling \$1.098 billion in fiscal year 2010 and \$347.0 million in fiscal year 2011.